

Global Markets Research

Fixed Income

Fixed Income Daily Market Snapshot

UST		
Tenure	Closing (%)	Chg (bps)
2-yr UST	2.41	9
5-yr UST	2.68	9
10-yr UST	2.86	7
30-yr UST	3.03	5

MGS		GII*		
Tenure	Closing (%)	Chg (bps)	Closing (%)	Chg (bps)
3-yr	3.75	0	3.73	0
5-yr	3.92	3	4.08	-1
7-yr	4.06	3	4.24	0
10-yr	4.25	0	4.34	0
15-yr	4.68	2	4.77	0
20-yr	4.93	0	4.84	-2
30-yr	4.94	0	5.00	0

*Market indicative

MYR IRS Levels		
IRS	Closing (%)	Chg (bps)
1-yr	3.76	0
3-yr	3.83	0
5-yr	3.92	-1
7-yr	4.01	-2
10-yr	4.16	0

Source : Bloomberg

Upcoming Government Bond Tenders

US Treasuries

US Treasuries saw a pull-back as gains were pared on the back of an earlier flight-to-safety move as the panic situation in Italy eased. Curve-flattening was seen as overall benchmark yields ended 5-9bps higher with the 2Y spiked 9bps at 2.41% and 10Y up by 7bps at 2.86%. Strangely the average strength of the UST 10Y bond rally seems stronger than the sell-off whereby the yield pull-back is seen to be swifter with a larger magnitude. The Treasury's almost \$350b of T-bill sales in 1Q18 helped spike yields; causing the Fed to experience difficulties in controlling short-end interest rates. On the data front we have core PCE, personal income and spending.

MGS/GII

Trading volume in local Govvies improved to RM1.44b; stripping out another RM2.45b of the newly-issued 5y GII 11/23 yesterday which notched a decent BTC ratio of 1.989x; averaging 4.094%. Overall MGS yields ended 0-3bps higher across the curve as interest continue to weigh on the shorter off-the-runs MGS 19-21's which formed bulk of trades. The benchmark 7Y MGS 3/25 closed 3bps higher at 4.06% whilst the 10Y MGS 6/28 was unchanged at 4.25%. Investors continue to await further news with regards to the measures to be undertaken to improve the country's debt levels and fiscal position.

Corp Bonds/Sukuk

Corporate Bonds saw continued lethargic volume of RM101m with some trades seen in the Govt-guaranteed and AA-space. The long-tenured DANA 7/39 ended 1bps higher at 5.16% compared to previous-done levels whilst AA-rated PKNS 12/18 saw RM20m traded closing 19bps up at 4.49%. Expect diminishing appetite for now as investors assess the impact (if any) on issuers which may be affected by the Govt's cancellation of major infrastructure projects including the potential abolishment of highway tolls.

Daily Trades : Government Bonds

Securities		Closing YTM	Vol (RM mil)	Previous YTM	Previous Trade Date (dd/mm/yyyy)	Chg (bp)
MGS	09/18	3.356	147	3.344	28/05/2018	1
MGS	03/19	3.430	26	3.343	28/05/2018	9
MGS	10/19	3.499	108	3.507	25/05/2018	-1
MGS	11/19	3.506	237	3.505	28/05/2018	0
MGS	03/20	3.632	79	3.603	25/05/2018	3
MGS	07/20	3.655	16	3.671	22/05/2018	-2
MGS	07/21	3.867	105	3.850	25/05/2018	2
MGS	09/21	3.837	2	3.837	28/05/2018	0
MGS	08/22	3.950	6	3.958	28/05/2018	-1
MGS	09/22	3.921	1	3.895	28/05/2018	3
MGS	04/23	3.915	6	3.881	24/05/2018	3
MGS	08/23	4.100	39	4.067	28/05/2018	3
MGS	07/24	4.162	2	4.171	28/05/2018	-1
MGS	09/24	4.222	22	4.176	28/05/2018	5
MGS	03/25	4.060	1	4.034	24/05/2018	3
MGS	09/25	4.244	36	4.309	25/05/2018	-7
MGS	11/26	4.355	50	4.369	25/05/2018	-1
MGS	03/27	4.397	13	4.339	23/05/2018	6
MGS	05/27	4.384	1	4.418	24/05/2018	-3
MGS	11/27	4.328	100	4.367	25/05/2018	-4
MGS	06/28	4.245	40	4.245	28/05/2018	0
MGS	04/30	4.719	3	4.719	28/05/2018	0
MGS	06/31	4.803	124	4.758	28/05/2018	4
MGS	04/33	4.751	15	4.731	28/05/2018	2
MGS	11/33	4.678	61	4.656	28/05/2018	2
MGS	05/35	4.951	67	4.909	23/05/2018	4
GII	08/18	3.438	2	3.398	25/05/2018	4
GII	08/20	3.731	57	3.727	25/05/2018	0
GII	04/22	3.989	40	3.955	25/05/2018	3
GII	07/23	4.126	8	4.073	24/05/2018	5
GII	11/23	4.084	2450	-	-	-
GII	09/26	4.402	1	4.431	28/05/2018	-3
GII	10/28	4.339	30	4.337	24/05/2018	0
			<u>3894</u>			

Daily Trades: Corp Bonds / Sukuk

Securities		Rating	Closing YTM	Vol (RM mil)	Previous YTM	Previous Trade Date (dd/mm/yyyy)	Chg (bp)	Spread Against MGS*
DanaInfra Nasional Berhad	07/39	GG	5.160	40	5.148	24/05/2018	1	25
PBFIN Berhad	06/59	AA2	4.987	1	4.496	24/05/2018	49	8
Perbadanan Kemajuan Negeri Selangor	12/18	AA3	4.490	20	4.296	13/04/2018	19	109
CIMB Thai Bank Public Company Limited	07/24	AA3	5.067	1	5.022	28/05/2018	4	107
UMW Holdings Berhad	04/18	A1	6.080	1	6.078	25/05/2018	0	117
Mah Sing Perpetual	-	-	5.624	39	6.100	24/04/2018	-48	-
Mah Sing Perpetual	-	-	6.524	1	6.499	21/05/2018	3	-
				<u>101</u>				

*spread against nearest indicative tenured MGS (Source : BPAM)

Market/Corporate News: What's Brewing

The Pakatan Harapan government is scrapping the third mass rapid transit line (MRT3) project, estimated to cost up to RM40 billion, in a bid to control the country's debt load in excess of RM1 trillion, according to Prime Minister Tun Dr Mahathir Mohamad. "The MRT3 project will be discontinued," Dr Mahathir, 92, told reporters after chairing the second weekly cabinet meeting yesterday. This follows the decision to abort the RM110 billion, 350km Kuala Lumpur-Singapore high-speed rail (HSR) project last week, which Dr Mahathir said was "unnecessary and will not earn the country a single sen". "We are not only looking at the HSR but also other megaprojects which will cost billions of ringgit. If this country is to avoid bankruptcy, we must learn to manage our big debts and one way is to do away with projects that are not beneficial to the country," the prime minister added. MRT3 is the final alignment of the MRT series of urban rail networks, intended to link with the completed MRT1, running from Sungai Buloh to Kajang, and the ongoing construction of MRT2, from Sungai Buloh to Putrajaya. Under Budget 2018, the construction of the MRT3 had been moved forward to 2025, two years ahead of the original 2027 schedule. The project was said to span a total of 40km and will cover hotspots in the city centre including Ampang Jaya, Kuala Lumpur City Centre, Bukit Bintang, Tun Razak Exchange, Bandar Malaysia, Bangsar, Pusat Bandar Damansara, Mont Kiara and Sentul. On the 600km-long East Coast Rail Link, another mega infrastructure train network project involving RM55 billion that will be built by China Railway Construction Corp and financed via a loan from The Export-Import Bank of China Ltd, Dr Mahathir said: "The project has not been cancelled as yet. We are still studying this matter." "We need to ensure the country's financial position is carefully managed. The government has to ensure it reduces the administration cost, and wastages," he added. On whether the government will scrap the Bandar Malaysia development project owned by 1Malaysia Development Bhd, which had been taken over by the finance ministry, Dr Mahathir said, "We did not discuss it during the cabinet meeting, but the finance ministry will provide an update and status of that project." Separately, Dr Mahathir said civil servants on pay grade 41 and below can look forward to a cash bonus of RM400 in conjunction with the upcoming Hari Raya Aidilfitri celebrations. He added that retired civil servants will receive a cash bonus of RM200. The cash handout or special assistance programme is an annual bonus payment that the government declares to the civil servants, ahead of the festive season to mark the end of Ramadan. "We have strengthened the government's financial footing and we will be paying special assistance [bonus] of RM400 to civil servants on grade 41 and below, and RM200 for retired civil servants," the nonagenarian prime minister said. However, this year's cash bonus is less than what the Congress of Unions of Employees in the Public and Civil Services had requested for, which was at least RM500 and above. Last year, the government, under former prime minister Datuk Seri Najib Razak, declared a bonus payment of RM1,500, which will be paid in two instalments. Meanwhile, Dr Mahathir said the government will introduce a special assistance programme known as "Bantuan Sara Hidup" to help the rakyat cope with the rising cost of living. Asked if the new assistance programme replaces Bantuan Rakyat 1Malaysia (BR1M), a cash handout initiative by the previous Barisan Nasional government, he said: "I don't know what is BR1M." Dr Mahathir also said the government is expected to appoint several more ministers before it can fix the date for the next parliament session. On Pakatan Harapan's timeline to implement its election manifesto, Dr Mahathir said it may need more than 100 days as "things are worse than what the government had expected". "The 100-day promises will be delivered. But we must also consider the country's finances so it will not affect the government administration," he added. For Bursa Malaysia, shares in construction-related counters such as Malaysian Resources Corp Bhd (MRCB), Gamuda Bhd, HSS Engineers Bhd and YTL Corp Bhd dropped between 8% and 34% yesterday, shortly after the government announced the abolishment of MRT3 and HSR. MRCB and Gamuda are both one of the two consortia appointed as project delivery partners for the HSR project. Another consortium is a joint venture between YTL, via Syarikat Pembinaan Yeoh Tiong Lay Sdn Bhd, and TH Properties Sdn Bhd. YTL shares fell 8.82% yesterday, while MRCB and Gamuda lost 16.79% and 23% respectively. With the declines, these companies lost RM2.87 billion in market value. Gamuda had been widely speculated to be the best proxy for the MRT3 project, as it has a proven track record in providing tunnelling and boring services. Most of the MRT3 projects are expected to be underground and thus require drilling jobs. Meanwhile, HSS, which secured an RM18 million HSR consultancy job in April 2017, recorded a steep 30 sen or 34% decline

yesterday. HSS, specialising in railway engineering, was also said to be keen in eyeing for MRT3 job. (Source: *The Edge*)

Malaysia may collect up to \$2.3 billion more in taxes and dividends from Petrolia Nasional Berhad, or Petronas, this year, a finance ministry official said on Wednesday, as firmer oil prices boost profits at the state energy firm. The new administration led by Tun Dr Mahathir Mohamad is relying more on Petronas - a significant contributor to government revenue and the country's largest employer - to offset a revenue shortfall from the government's plan to scrap a consumption tax. Oil prices were trading close to 3-1/2-year highs on Wednesday as Petronas reported a 26-percent surge in first quarter profit. With oil prices improving, Malaysia may collect 8-9 billion ringgit (\$2-\$2.26 billion) more in revenue from Petronas this year, Ong Kian Ming, a special officer to the finance minister, told Reuters. He said the increase would come through corporate taxes and dividends to the government, but discussions are still ongoing. Petronas said it was unable to comment on the matter. Petronas paid 17.4 billion ringgit in taxes and 16 billion ringgit in dividends to the government in 2017. Its contribution to government revenue typically increases with the company's profitability. Last year, Petronas paid 5.8 billion ringgit more to federal and state governments as profits and oil prices rose. A higher contribution from Petronas this year will help narrow the government's revenue shortfall from effectively scrapping the goods and services tax, Ong told BFM radio station on Wednesday. Aside from Petronas, the government was also looking at higher dividends from the central bank and sovereign fund Khazanah Nasional, Ong told BFM. "These are all the options on the table," he said. (Source: *The Star*)

Rating Actions			
Issuer	PDS Description	Rating/Outlook	Action
Midciti Sukuk Berhad (Midciti Sukuk)	RM3.0 billion in Nominal Value (2014/2044)	AAA/Stable	Reaffirmed
Grand Sepadu (NK) Sdn Bhd	RM210.0 million Sukuk Murabahah	AA-IS	Watch
Cerah Sama Sdn Bhd	RM750.0 million in nominal value IMTN (Sukuk) Programme	AA-IS	
Konsortium Lebuhraya Utara-Timur (KL) Sdn Bhd	RM2.3 billion IMTN Programme (Sukuk Musharakah)	AA-IS	
Sistem Penyuraian Trafik KL Barat Sdn Bhd	RM180.0 million Redeemable Secured Junior Bonds RM510.0 million BaIDS	A+ IS	
ANIH Berhad	RM2.5 billion Senior Sukuk Musharakah Programme	AA IS	
Senai-Desaru Expressway Bhd	RM1.89 billion IMTN Programme	BBB- IS	
Projek Lebuhraya Usahasama Bhd	RM23.35 billion Sukuk Musharakah Programme	AAA IS	
MEX II Sdn Bhd	RM1.30 billion Sukuk Murabahah Programme	AA-IS	
Lebuhraya Duke Fasa 3 Sdn Bhd	RM150.0 million Junior Bonds RM3.64 billion in nominal value Sukuk Wakalah	A- AA-IS	
Projek Lintasan Sungai Besi - Ulu Klang Sdn Bhd	RM2.0 billion Sukuk Wakalah Programme RM500.0 million Danajamin-Guaranteed Facilities	A+ IS(s) AAA IS(g)	

Source: RAM Ratings; MARC

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